

**Testbank**

to accompany

**Contemporary Issues in Accounting**

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**Chapter 2 The *Conceptual Framework for Financial Reporting***

**Multiple Choice Questions**

1. How does the conceptual framework differ from an accounting standard?
  - a. The principles in the conceptual framework are specific in nature while accounting standards provide more general requirements for financial reporting
  - \*b. The principles in the conceptual framework are general concepts while accounting standards provide specific requirements for a particular area of financial reporting
  - c. The principles in the conceptual framework are designed to provide guidance and apply to a limited range of decisions relating to the preparation of financial reports while accounting standards apply to a wider range of decisions relating to the preparation of financial reports
  - d. The principles in the conceptual framework provide specific requirements for a particular area of financial reporting while accounting standards are designed to provide general guidance

Correct answer: b

Learning Objective 2.1 ~ Explain what a conceptual framework is.

2. The accounting conceptual framework is what kind of theory?
- a. Abstract
  - \*b. Normative
  - c. Positive
  - d. Emergent

Correct answer: b

Learning Objective 2.1 ~ Explain what a conceptual framework is.

3. The *Conceptual Framework*:
- a. Is based on the one Pacioli included in *Particularis de Computis et Scripturis*
  - b. Is used by every country that has adopted the International Accounting Standards
  - \*c. Was a joint project between the AASB and FASB
  - d. Has remained unchanged for over 20 years

Correct answer: c

Learning Objective 2.2 ~ Understand the history, evolution of and current developments in the *Conceptual Framework for Financial Reporting*.

4. Which of the following questions does the *Conceptual Framework* NOT answer?
- a. Who are financial reports for
  - b. What is the purpose of the financial reports
  - c. What type of information should be included in financial reports
  - \*d. What measurement basis should be used in financial reports

Correct answer: d

Learning Objective 2.3 ~ Outline the structure, approach and components of the *Conceptual Framework*.

5. Which of the following statements is correct in relation to the assumptions to be made when preparing financial reports?
- a. The conceptual framework requires that several assumptions be made when preparing financial reports
  - b. There are no assumptions to be made when preparing financial reports
  - \*c. There is one underlying assumption which is that financial reports are prepared on a going concern basis
  - d. There is an assumption that more information is better than less

Correct answer: c

Learning Objective 2.3 ~ Outline the structure, approach and components of the *Conceptual Framework*.

6. The conceptual framework states that it is concerned with general purpose financial reports. What are general purpose financial reports?
- a. Financial reports that are tailored to the particular information needs of users
  - \*b. Financial reports intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs
  - c. Financial reports which do not meet the needs of users
  - d. None of the above

*Correct answer: b*

*Learning Objective 2.4 ~ Explain and evaluate the purpose, objective and underlying assumption of the Conceptual Framework.*

7. According to the conceptual framework the primary objective of financial information is
- \*a. Decision Usefulness
  - b. Prediction
  - c. Stewardship
  - d. Accountability

*Correct answer: a*

*Learning Objective 2.4 ~ Explain and evaluate the purpose, objective and underlying assumption of the Conceptual Framework.*

8. The *Conceptual Framework* identifies a limited range of primary users of financial statements. Which of the following best describes these users?
- a. Current investors
  - \*b. Existing and potential investors, Lenders, Other creditors
  - c. Investors, Creditors, Overseers, Customers, General Public
  - d. Resource providers

*Correct answer: b*

*Learning Objective 2.4 ~ Explain and evaluate the purpose, objective and underlying assumption of the Conceptual Framework.*

9. According to the *Conceptual Framework* which of the following are included in the fundamental qualitative characteristics that accounting information should have?
- I. Relevance
  - II. Reliability
  - III. Faithful Representation

IV. Understandability

- a. I.
- b. I. and II.
- \*c. II. and III.
- d. I., II., III. and IV.

*Correct answer: c*

*Learning Objective 2.5 ~ Explain the qualitative characteristics of useful financial information in the Conceptual Framework.*

10. A key aspect of relevance is that information is

- a. Complete
- b. Neutral
- c. Forward looking
- \*d. Material

*Correct answer: d*

*Learning Objective 2.5 ~ Explain the qualitative characteristics of useful financial information in the Conceptual Framework.*

11. The four enhancing qualitative characteristics recognised by the *conceptual framework* are:

- a. Materiality, comparability, timeliness, cost versus benefit
- b. Relevance, materiality, reliability, comparability
- \*c. Understandability, verifiability, timeliness, comparability
- d. Understandability, cost versus benefit, verifiability, comparability

*Correct answer: c*

*Learning Objective 2.5 ~ Explain the qualitative characteristics of useful financial information in the Conceptual Framework.*

12. The constraints on financial reporting identified under the *conceptual framework* are:

- \*a. Cost versus benefit
- b. Timeliness and neutrality
- c. Understandability and materiality
- d. Understandability and cost versus benefit

*Correct answer: a*

*Learning Objective 2.5 ~ Explain the qualitative characteristics of useful financial information in the Conceptual Framework.*

13. Which of the following elements in the financial statement is NOT defined by reference to other elements?
- a. Equity
  - b. Expenses
  - \*c. Liabilities
  - d. Income

*Correct answer: c*

*Learning Objective 2.6 ~ Explain the elements of financial statements in the Conceptual Framework.*

14. Which of the following are key parts of the definition of an asset?
- I. Probability
  - II. Control
  - III. Ownership
  - IV. Past Transaction or Event
  - V. Reliable Measurement
  - VI. Future Economic Benefits
- a. I, III. & VI.
  - b. II., IV. & V.
  - c. III., V. & VI.
  - \*d. II., IV. & VI.

*Correct answer: d*

*Learning Objective 2.6 ~ Explain the elements of financial statements in the Conceptual Framework.*

15. An element is considered probable if the chance of the flow associated with it occurring is greater than:
- a. 30%
  - \*b. 50%
  - c. 75%
  - d. 90%

*Correct answer: b*

*Learning Objective 2.6 ~ Explain the elements of financial statements in the Conceptual Framework.*

16. A key political benefit that may arise from a conceptual framework in accounting is:
- a. Individuals and groups are able to influence the standard setters
  - b. Protection of the professional status of accountants and accounting
  - \*c. Prevention of political interference in setting accounting standards
  - d. All of the above

*Correct answer: c*

*Learning Objective 2.7 ~ Explain the benefits of conceptual frameworks.*

17. Accounting standards are seen to be political because
- a. They can create wealth transfers between different groups in society
  - b. They can affect the competitiveness of organisations
  - c. They can influence perceptions about organisations
  - \*d. All of the above

*Correct answer: d*

*Learning Objective 2.7 ~ Explain the benefits of conceptual frameworks.*

18. Which of these is not a criticism of conceptual framework projects?
- \*a. The measurement of the elements of financial reporting is too highly specified
  - b. It is ambiguous and open to interpretation
  - c. It is too descriptive
  - d. Faithful representation and relevance conflict with each other

*Correct answer: a*

*Learning Objective 2.8 ~ Explain and evaluate the problems and criticisms of conceptual frameworks, including the Conceptual Framework.*

19. It is argued that the conceptual framework is descriptive, not prescriptive, because:
- a. Its purpose is to try to improve practice rather than simply reflecting and giving approval to existing accounting principles and practice
  - b. It describes what should happen in practice
  - \*c. It simply describes accounting principles as currently practiced and applied
  - d. None of the above

*Correct answer: c*

*Learning Objective 2.8 ~ Explain and evaluate the problems and criticisms of conceptual frameworks, including the Conceptual Framework.*

20. Faithfull representation has been criticised because

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- \*a. It does not reflect the inherent uncertainty in accounting
- b. It is not an important issue for accountants
- c. It does not capture the true value of accounting transactions
- d. It leads to a single measurement model dominating accounting

*Correct answer: a*

*Learning Objective 2.8 ~ Explain and evaluate the problems and criticisms of conceptual frameworks, including the Conceptual Framework.*